

Study of Common Stochastic Trend and Cointegration in the Emerging Stock Markets: With Special Reference to India *

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This study analyzes not only the linkages that exist among the BRIC countries, but also those between Brazil, Russia, India and China (BRIC) markets and major developed markets (USA, UK and Japan). The study looks at closing stock prices from January 1997 to June 2010 using Unit roots, Granger causality, Cointegration and Error correction mechanism. The results of the study are somewhat mixed. The evidence indicates that the BRIC economies move partially with the markets of other developed countries and also among themselves. The lack of strong links among BRIC markets and between their counterparts in developed economies presents an opportunity for portfolio diversification.

I Introduction

It has been presumed that the stock market meets the needs and requirements of credit and finance of the business community. The pace of economic development is conditioned, among other things, by the rate of long-term investment and capital formation that is conditioned by mobilization, augmentation and channelization of investible funds. Therefore, the stock market as a financial intermediary is expected to serve a useful purpose by pooling the capital resources of the country and making them available to the investors. Currently, those markets that are not subject to government legislation are leading the movement towards the integration of stock markets.

On a global scale, the main international lenders are the industrially advanced countries such as United States, United Kingdom, Japan and those in Western Europe. In these countries highly developed market places have grown up, which provide links to overseas productive opportunities and channels for foreign-destined business and portfolio capital. The world's main borrowers

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